

WATER/SNR/TAC/LTR:jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION
Water Advisory BranchRESOLUTION W-4312
December 11, 2001**R E S O L U T I O N**

**(RES. W-4312), LITTLE BEAR SEWER COMPANY, INC. (LBSC).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC)
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$39,145
OR 24.1% IN 2001.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$39,145 or 24.1% for Test Year 2001. This increase will provide a 13.25% rate of return on a rate base of \$356,929 in the test year.

BACKGROUND

LBSC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for sewer service to produce additional revenues of \$42,840 or 26.4% in 2001. LBSC's request shows 2001 gross revenue of \$162,260 at present rates increasing to \$205,100 at proposed rates to produce a rate of return on rate base of 13.25%.

LBSC currently serves 392 sewer customers in the Royal Estates Subdivision and vicinity, located approximately 3 miles southwest of King City, Monterey County. The current rates were established on January 23, 2001, pursuant to Decision 92-03-093, which authorized all Class C and D water utilities to file once a year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index (CPI-U). LBSC's last general rate increase became effective on April 15, 1996, pursuant to Res. W-3980, which authorized an increase of \$102,822, or 180.46% and a rate of return of 13.25%.

DISCUSSION

LBSC and Little Bear Water Company (LBWC) are two distinct entities that are owned by the same interest. While distinct, they have the benefit of sharing some expenses (e.g. salaries, transportation, insurance, etc.). This allows the customers of both companies to pay a smaller percentage of some of the expenses than had each one of the companies been separate. Expenses are allocated to each utility based upon the estimated time spent on each utility or on proportionate dollars expended. This resolution deals specifically with the rate increase request of LBSC. LBWC's request is dealt with in a separate resolution.

In February 2001, the staff of the Water Advisory Branch (Branch), under the provisions of the Branch's outreach program, initially aided LBSC in filing a general rate increase. LBSC then hired a consultant to complete the filing and on July 3, 2001, Branch accepted the work papers filed by LBSC. The Branch made an independent analysis of LBSC's summary of earnings and issued its report on October 1, 2001. Appendix A shows LBSC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between LBSC's and the Branch's estimates in operating revenues, expenses, and rate base.

LBSC based its energy use estimate for 2001 on actual usage for 2000 (a 12-month period), with an adjustment for the projected increase in customers. LBSC applied PG&E's current tariff rates to its estimates. Staff accepts LBSC's estimated usage and notes a minor mathematical error in rates that results in differences between staff and LBSC's estimates.

LBSC was informed of the Branch's differing views of revenues, expenses, and rate base and it agrees with the Branch's findings.

LBSC's requested rates and the Branch's recommended rates will produce a rate of return of 13.25%. This is the midpoint of the standard rate of return range (12.75 to 13.75%), recommended by the Water Division's Audit & Compliance Branch, for Class D sewer utilities.

LBSC submitted an accounting of plant in service in order to update plant accounts since the last GRC. Branch accepted those estimates but differs with the proposed improvements for the test year. Branch has more recent information

on work done in 2001 and has included this information in its estimate. LBSC concurs with this estimate.

LBSC has also not been recording retirements for items replaced and is overstating its plant-in-service accounts. While these overstatements are balanced by the depreciation reserve account, the accounts do not accurately reflect the actual items in plant. When retirements are booked, both plant-in-service and accrued depreciation are reduced by the depreciated value of the facilities being retired. This results in no change in rate base. Branch recommends that LBSC be ordered to correct the accounts to accurately reflect current plant-in-service.

LBSC files Annual Reports regularly and there are no other outstanding Commission orders. LBSC's current rate structure consists of one schedule: Schedule No. SS-1, Residential Sewer Service. The rates proposed by the Branch are shown in Appendix B.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer would increase from \$34.45 to \$42.76 per month. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

LBSC should also update its tariff sheets: Title Page, Schedule UF; Schedule LC; Rules 1 to 14, 16 to 21, and Forms 2 and 3.

NOTICE AND PUBLIC MEETING

LBSC mailed a notice of the proposed rate increase to each customer on July 2, 2001. Four letters were received by Staff, which indicated objection to the magnitude of the proposed rate increase. From July 1, 2000 to July 1, 2001, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding LBSC.

On July 19, 2001, Staff held an informal public meeting in LBSC's service area. Five customers attended. Ms. Tatiana Cherkas, Senior Utilities Engineer, explained the Commission rate-setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
4. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
5. LBSC should be ordered to update its utility plant-in-service and accumulated depreciation reserve accounts to accurately reflect the current amounts in each account.
6. LBSC should be ordered to update its tariff sheets: Title Page, Schedule UF; Schedule LC, Late Payment Charge; and Rules 1 to 14, 16 to 21, and Forms 2 and 3.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Little Bear Sewer Company, Inc. to file an advice letter incorporating the summary of earnings and the revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. SS-1, Residential Sewer Service. The filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
2. Little Bear Sewer Company, Inc. is ordered to update its utility plant-in-service and accumulated depreciation reserve accounts to accurately reflect the current amounts in each account.
3. Little Bear Sewer Company, Inc. is ordered to update its tariff sheets: Title Page, Schedule UF, Schedule LC, Rules 1 to 14, Rules 16 to 21, and Forms 2 and 3.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 11, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

Appendix A
Little Bear Sewer Company
Summary of Earnings
Test Year 2001

Description	LBSC	Estimated	Branch	Estimated	Branch
	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
OPERATING REVENUES					
Sewer Revenues	162,260	205,100	162,260	205,100	201,405
TOTAL REVENUES	162,260	205,100	162,260	205,100	201,405
OPERATING EXPENSES					
Purchased Power	30,065	30,065	31,842	31,842	31,842
Employee Labor	21,632	21,632	21,632	21,632	21,632
Materials	1,442	1,442	1,442	1,442	1,442
Contract Work	3,175	3,175	3,175	3,175	3,175
Transportation Exp.	2,546	2,546	1,845	1,845	1,845
Other Plant Maintenance Exp.	109	109	109	109	109
Office Salaries	10,296	10,296	10,296	10,296	10,296
Management Salaries	12,021	12,021	12,021	12,021	12,021
Officers Salaries	2,592	2,592	0	0	0
Employee Pensions and Benefits	4,395	4,395	4,395	4,395	4,395
Uncollectible Accounts Exp.	1,623	2,051	471	595	584
Office Services and Rentals	4,133	4,133	4,133	4,133	4,133
Office Supplies and Exp.	3,588	3,588	3,588	3,588	3,588
Professional Services	2,816	2,816	2,816	2,816	2,816
Insurance	6,967	6,967	6,967	6,967	6,967
Regulatory Commission Exp.	1,013	1,013	1,013	1,013	1,013
General Expenses	934	934	934	934	934
SUBTOTAL	109,347	109,775	106,679	106,803	106,792
Depreciation Expense	11,327	11,327	11,360	11,360	11,360
Taxes Other Than Income Taxes	10,210	10,210	9,790	9,790	9,790
Income Taxes & Franchise Fee	8,789	26,605	9,769	28,177	26,186
TOTAL DEDUCTIONS	136,673	157,917	137,597	156,130	154,128
NET REVENUE	22,587	47,183	24,662	48,970	47,277
RATE BASE					
Average Plant	716,103	716,103	717,288	717,288	717,288
Average Accum. Depreciation	268,487	268,487	268,504	268,504	268,504
Net Plant	447,616	447,616	448,784	448,784	448,784
Less: Contributions	100,754	100,754	100,754	100,754	100,754
Plus: Working Cash	9,112	9,148	8,890	8,900	8,899
RATE BASE	355,974	356,010	356,920	356,930	356,929
RATE OF RETURN	6.34%	13.25%	6.91%	13.72%	13.25%

(END OF APPENDIX A)

**Appendix B
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**Little Bear Sewer Company
Schedule No. SS-1**

RESIDENTIAL SEWER SERVICE

APPLICABILITY

Applicable to all residential sewer service.

TERRITORY

Royal Estates Unit No. 3 and vicinity, Monterey County.

RATES

	<u>Per Service Connection Per Month</u>	
For a single residential unit	\$ 42.76	(I)
For each additional single-family unit on the same premises and served from the same connection ...	\$ 42.76	(I)

SPECIAL CONDITIONS

1. The above rates apply to a service connection not larger than four inches in diameter.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF. (N)

(END OF APPENDIX B)

Appendix C
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Little Bear Sewer Company
Comparison of Rates
Test Year 2001

A monthly bill comparison for a residential unit customer is shown below:

<u>Present</u> <u>Rates</u>	<u>Per Service Connection Per Month</u>		
	<u>Recommended</u> <u>Rates</u>	<u>Amount</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
\$ 34.45	\$ 42.76	\$ 8.31	24.1%

(END OF APPENDIX C)

Appendix D
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Little Bear Sewer Company
Recommended Quantities - Test Year 2001

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income

2. State Tax Rate: 8.84%

3. Monterey County Franchise Tax Rate: 2%

4. Service Connections:

Single unit	393
Additional units	0
TOTAL	393

5. Property Taxes: \$5,782
1.2% tax rate

6. Payroll Taxes: \$4,008

7. Adopted Tax Calculations – Total for both LBWC and LBSC

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenues	\$528,450	\$528,450
2.	Expenses	\$298,741	\$298,741
3.	Taxes Other Than Income Taxes	\$ 23,626	\$ 23,626
4.	Depreciation	\$ 31,733	\$ 31,733
5.	Interest	\$ 5,651	\$ 5,651
6.	State Taxable Income	\$168,699	
7.	State Income Tax (@8.84% or \$800 minimum)	\$ 14,913	
8.	Federal Taxable Income		\$153,786
9.	Federal Income Tax (@15%)		\$ 43,226
10.	TOTAL STATE & FEDERAL INCOME TAX	\$58,139	
11.	Monterey County Franchise Tax (@2%)	\$10,569	
12.	TOTAL INCOME TAXES	\$68,708	

INCOME TAX ALLOCATED TO LITTLE BEAR WATER COMPANY: \$42,522

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INCOME TAX ALLOCATED TO LITTLE BEAR SEWER COMPANY: \$26,186

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Little Bear Sewer Company
Recommended Quantities - Test Year 2001

8. Purchased Power

Pacific Gas and Electric Company, Schedule No. A-6P,
Small General Time-Of-Use Service, Effective August 8, 2000

Quantity Charge:

kWh used - total: 213,631
kWh used - summer: 121,068
 kWh used – summer peak: 19,735
 \$/kWh – summer peak: \$0.23258
 kWh used – summer off-peak: 75,392
 \$/kWh – summer off-peak: \$0.05618
 kWh used – summer part-peak: 25,941
 \$/kWh – summer part-peak: \$0.10288
kWh used - winter: 92,563
 kWh used – winter off-peak: 55,607
 \$/kWh – winter off-peak: \$0.07169
 kWh used – winter part-peak: 36,956
 \$/kWh – winter part-peak: \$0.11562

Service Charge:

\$/pump/mo. - single-phase: \$8.10
\$/pump/mo. - polyphase: \$12.00
of pumps - single phase: 0
of pumps - polyphase: 2

Meter Charge:

\$/pump/mo. - all meters: \$6.80

Pacific Gas and Electric Company, Schedule No. E-EPS,
Energy Procurement Surcharges, Effective June 1, 2001

Quantity Charge:

All electric service customers: \$0.01000/kWh
Schedule A-1 & A-1P customers:
 \$0.06140/kWh – summer
 \$0.02838/kWh – winter
Schedule A-6 & A-6P customers:
 \$0.10064/kWh – summer on-peak
 \$0.04551/kWh – summer part-peak
 \$0.03551/kWh – summer off-peak
 \$0.04551/kWh – winter part-peak
 \$0.03551/kWh – winter off-peak

(END OF APPENDIX D)